



THE CITY OF SAN DIEGO

DATE: January 8, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor Activity Report – December 2009**

This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of December 2009. It includes the audit reports issued and other accomplishments during this period, the status of current audit projects and activities, and a summary of planned audits that we have not yet started.

Audit Reports and Accomplishments:

- December 2, 2009 – Issued our Performance Audit of the City Treasurer's Delinquent Account Program - Development Services Deposit Accounts. During our audit of the Delinquent Accounts Program of the Office of the City Treasurer, we found significant weaknesses in the billing and collection practices of the Development Services Department (DSD). DSD has a decentralized and mostly manual billing and collection process for Deposit Accounts which has resulted in a significant number of Deposit Accounts falling into deficit. DSD has failed to refer these past due amounts to the Delinquent Accounts Program for collection in a timely manner resulting in approximately \$3.4 million of uncollected fees as of June 30, 2009. We made 14 recommendations to management for corrective actions. The audit report can be found on our website at:
http://www.sandiego.gov/auditor/reports/audit_pdf/dsd_deposit_accounts.pdf
- December 7, 2009 – Presented to the Audit Committee the results of our Performance Audit of the City Treasurer's Delinquent Account Program - Development Services Deposit Accounts. The presentation can be found on our website at:
http://www.sandiego.gov/auditor/reports/memo_pdf/treasurers_dsd_audit_presentation.pdf

Audit Reports and Accomplishments (Continued):

- December 30, 2009 – Issued an audit report regarding City Charter Requirements for Unclaimed Funds. During the course of conducting the Purchasing and Contracting Performance Audit, the issue of unclaimed monies came to our attention. Currently, approximately \$778,000 in unclaimed money is in the City Treasury. Based on our review we found the process followed by the City Comptroller regarding the disposition of unclaimed monies is not in compliance with the City Charter. The Comptroller's Office follows the California Government Code procedures for unclaimed funds, which is in conflict with the City Charter regarding the time period that must pass before unclaimed monies are transferred to the general fund. The City Charter states that all unclaimed funds shall be credited to the general fund after a period of one year, while the California Government Code states that unclaimed money becomes the property of the City after three years. We asked the City Attorney's Office for a preliminary opinion regarding which regulation would take precedence, and the Deputy City Attorney suggested that the City Charter would take precedence. We recommended the Office of the City Comptroller consult with the City Attorney to determine the legality of transferring the \$777,800 in unclaimed money to the general fund to be in compliance with the City Charter. The City Comptroller agreed, and has requested a formal opinion from the City Attorney. This report can be found on our website at:
<http://www.sandiego.gov/auditor/pdf/unclaimedfunds.pdf>
- Edward Moreno has recently joined the City Auditor's Office as a Principal Auditor. Edward has a Master of Public Administration from the University of Southern California, and a Bachelor of Arts degree in Political Science from California State University of Northridge. His experience includes an internship with the United States Bankruptcy Court where he audited the financial services department for procurement compliance with Federal regulatory requirements. He also had an internship with the Office of Los Angeles Councilman Bernard Parks, where he provided policy analysis and recommendations on budgetary, economic development, public safety, and transportation issues.

Current Audits and Activities:

Audit Activity	Status	Target Completion Date
Public Utilities - Bid-To-Goal Program Audit	The objectives of this audit are to determine the efficiency and effectiveness of the Public Utilities Department's Bid to Goal Program. A draft audit report has been prepared and is under review. Issuing this report has taken longer than anticipated due to difficulties obtaining program records and additional time needed for our report quality assurance procedures. We have used approximately 1,548 audit hours.	January 2010
Citywide Revenue Audit	The objective of this audit is to assess the risk associated with the various revenues collected by the City, identify revenue categories that have not been audited by the City, and recommend a strategy for auditing revenues based on risk to the City. Furthermore, this audit will review the activities of the Treasurer's Revenue Audit and Appeals Division. A draft audit report has been prepared and is under review. Issuing this report has taken longer than anticipated due to the volume and complexity of issues identified during this audit. We have used approximately 1,004 audit hours.	January 2010

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Purchasing and Contracting – Requisition, Purchase Order and Contract Management	The objective of this audit is to determine if Purchasing and Contracting has sound procurement procedures in place and to evaluate the efficiency and effectiveness of the Department’s procedures. We completed an audit of the contracts associated with the debris removal program to clear homes destroyed in the 2007 wildfires and a report regarding unclaimed monies within the scope of this audit. We have now finished fieldwork on auditing Citywide purchasing and contracting procedures. A draft audit report has been prepared and is under review. We have used approximately 2,467 audit hours.	January 2010
Purchasing and Contracting - Equal Opportunity Contracting and Labor Compliance Audit	The objective of this audit is to determine the efficiency and effectiveness of the City's equal opportunity contracting and labor compliance. A draft audit report has been prepared and is under review. We have used approximately 987 audit hours.	January 2010
City Treasurer - Investment Activities Audit	The objective of this audit is to determine if investments are being properly handled, accounted for and accurately reported in the City's financial statements. A draft audit report has been prepared and is under review. We have used approximately 679 audit hours.	January 2010

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Close-out Audits	Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We are conducting close-out audits for Anna Danegger, former Business Office Department Director, and Tracy Jarman, former Fire Chief, and David Wescoe, former Retirement Administrator. We have used approximately 38 hours on these audits.	February 2010
Audit of Development Services' Process for the Collection of Public Utilities Fees	The objective of this audit is to determine if Development Services has adequate procedures in place to ensure the proper collection of Public Utilities fees. Audit fieldwork is in progress. We have used approximately 531 audit hours.	February 2010
Enterprise Resource Planning (ERP) System Implementation Review	The objectives of this audit are: (a) determine if the City's key financial activities were adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system (b) determine if the system was adequately tested prior to implementation and (c) review high risk interfaced and impacted systems post SAP go-live. Audit fieldwork is in progress. Approximately 2,276 audit hours have been used. One report has already been issued during this audit.	TBD

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
General Services - Streets Division Roadways Audit (Part I, II, & III)	The objective of this audit is to determine if City streets are being efficiently and effectively maintained by the City. Audit fieldwork is in progress. We have used approximately 1,284 audit hours. We issued a report on Part I, and we plan to issue two additional reports.	TBD Part II and III
City Treasurer - Delinquent Account Collections Audit	The objective of this audit is to determine if overdue accounts due to the City are being properly noticed, collected, accounted for, and accurately reported in the City's financial statements. We issued a report on December 2, 2009 regarding Development Services Department's lack of referrals to City Treasurer's for collection efforts. Audit fieldwork for a second and final report is in progress. We have used approximately 511 audit hours.	TBD
Engineering and Capital Projects – CIP Audit	The objective of this audit is to evaluate the efficiency and effectiveness of Engineering and Capital Projects' administration of CIP projects. This audit is in the planning phase, and we have used approximately 30 audit hours.	TBD
Disclosure Practices Working Group (DPWG)	City Auditor staff participates in DPWG meetings as an ex officio member. We spent approximately 2 hours participating in DPWG meetings during this month.	On-going

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Fraud, Waste and Abuse Hotline	We review and administer the City's Hotline calls that are received. Investigations are performed by the Office of the City Auditor for accusations of material fraud, waste or abuse, and we issue Hotline reports on any fraud related allegations that are substantiated. During the month of December, there were approximately 6 new hotline calls received, and we spent approximately 106 hours conducting investigations.	On-going
Follow-up on All Audit Report Recommendations Issued in FY08 Through the First Quarter of FY09	We created a database to track all of our audit recommendations made since FY08. We provided our database to City Comptroller staff for follow-up. Comptroller staff will contact those responsible for implementing our recommendations and provide status data to the City Auditor on all of our recommendations. The Comptroller's original target date to provide the status was November 30, 2009, and we have not yet received the data. City Auditor staff will conduct follow-up testing to verify that the recommendations marked as completed have actually been implemented once we receive the status data from the Comptroller.	On-going

Planned FY10 Audits Not Yet Started:

Planned Audit	Estimated Audit Hours
City Treasurer – Parking Administration Audit	640
Risk Management – Public Liability and Loss Recovery Audit	880
Police Department – Fiscal Services (Animal Services Contract) Audit	600
City Comptroller / Personnel Department – Payroll Audit	1,280
Risk Management – Workers’ Compensation Audit	1,200
Fire Rescue – Fire Prevention Audit	920
Annual Central Stores Inventory Audit FY10	45

Respectfully Submitted,



Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor